

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

by Martha Britton Eller

Under the Economic Growth and Tax Relief Reconciliation Act of 2001, the Federal estate tax is set for temporary repeal in 2010.

However, without further Congressional action to permanently repeal the tax, it will reappear and apply to transfers in 2011 and beyond. According to estate tax data collected by the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS), estates filed 108,330 Federal estate tax returns for decedents who died in 2001, and those estates reported \$198.8 billion in total assets. Less than half of the filing population, 49,845 estates, reported net estate tax, which contributed \$20.8 billion in revenue to Federal inlays.

Estates reported \$57.8 billion in publicly traded stock, the largest asset for 2001 decedents. The second and third largest assets were cash holdings and tax-exempt State and local bonds, worth \$25.3 billion and \$19.5 billion, respectively. Estates also reported \$1.7 billion in family limited partnership interests. Publicly traded and closely held stock and real estate were the largest holdings reported in family limited partnerships.

In addition to family limited partnership interests, estates reported interests in other business entities. However, few estates took advantage of protective provisions for small and closely held businesses, which include special use valuation, the qualifying family-owned business deduction, and estate tax deferral. Only 0.8 percent of all 2001 estates reported special use valuation for qualifying real property, and only 1.0 percent of estates claimed the family-owned business deduction. Less than half a percentage point, 0.4 percent of estates, elected to postpone payment of estate tax liabilities due to ownership interests in closely held businesses.

Background: Federal Transfer Tax Law and EGTRRA of 2001

The Federal estate tax, the gift tax, and the generation-skipping transfer tax compose the Federal transfer tax system. The Federal estate tax, passed into law with the Revenue Act of 1916 and described

in Internal Revenue Code (IRC) section 2001, is neither a tax on property nor an inheritance tax on the receipt of property. Rather, the estate tax is a tax on the right to transfer property at death. For deaths that occur in 2005, the filing threshold for property transfers at death is \$1.5 million in total gross estate.

The gift tax, applied to lifetime transfers of property, was imposed by the Revenue Act of 1932, in part to prevent estate tax avoidance schemes. Prior to passage of the 1932 Act, individuals could transfer assets during life and thereby avoid estate taxation at death. Under current law, an individual may give up to \$11,000 per year to any number of recipients with no Federal gift tax liability.

The generation-skipping transfer (GST) tax, imposed by the Tax Reform Act (TRA) of 1976 and later modified by the 1986 Tax Reform Act, ensures that the transmission of hereditary wealth is taxed at each generation level. This additional tax is applied to the value of property transferred to an individual or individuals two or more generations below that of the decedent. The creation of GST trusts, distributions from the principal of trusts, and the termination of income interests are taxable events under generation-skipping transfer tax law. Direct transfers are also taxable under GST law. Qualifying transfers in excess of \$1.5 million are currently subject to the generation-skipping transfer tax.

Upon passage of TRA of 1976, estate and gift taxes shared a unified framework of graduated and progressive tax rates, while the generation-skipping transfer tax applied the maximum Federal estate tax rate to taxable generation-skipping transfers.

With the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, Congress made significant changes to the Federal transfer tax framework. Most noteworthy, of course, was lawmakers' decision to eventually repeal the estate tax, as well as the generation-skipping transfer tax. Beginning with transfers that occur after December 31, 2001, the applicable exclusion amount, or exemption amount, for estates will slowly increase from \$1.0 million in 2002 to \$3.5 million in 2009 (Figure A). For at-death transfers that occur in 2010, no estate tax will apply, as the estate tax is repealed for deaths in 2010. The highest estate and GST tax rates will decrease between 2002 and 2009, from 50 percent to

Martha Britton Eller is an economist with the Special Studies Special Projects Section. This article was prepared under the direction of Barry W. Johnson, Chief.

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

45 percent. The lifetime GST exclusion remained at \$1.0 million, adjusted for inflation, until 2004, at which time the GST exclusion became equal to the estate tax exclusion of \$1.5 million; the two exclusions will remain equal through 2009. According to EGTRRA, the lifetime exclusion for gifts will increase from \$675,000 in 2001 to \$1.0 million for gifts given in 2002. The exclusion will remain at \$1.0 million through 2010 and beyond, since Congressional lawmakers did not repeal the Federal gift tax. EGTRRA includes a “sunset” requirement, which effectively means that all provisions set forth in the 2001 Act will expire after December 31, 2010.

Tax Law in Effect for 2001 Deaths

The estate of a decedent who, at death, owns assets valued in excess of the estate tax applicable exclusion amount, or filing threshold, must file a Federal estate tax return, Form 706, *U.S. Estate (and Generation-Skipping Transfer) Tax Return*. For decedents who died in 2001, the exclusion amount was \$675,000. For estate tax purposes, the value of property included in gross estate is fair market value (FMV), defined as “the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all relevant facts,” according to Regulation 20.2031-1(b) of the IRC [1]. The gross estate

consists of all property, whether real or personal, tangible or intangible, including “all property in which the decedent had an interest at the time of his or her death and certain property transferred during the lifetime of the decedent without adequate consideration; certain property held jointly by the decedent with others; property over which the decedent had a general power of appointment; proceeds of certain insurance policies on the decedent’s life; dower or curtesy of a surviving spouse; and certain life estate property for which the marital deduction was previously allowed” [2]. Specific items of gross estate include real estate, cash, stocks, bonds, businesses, and decedent-owned life insurance policies, among others. Assets of gross estate are valued at a decedent’s date of death, unless the estate’s executor or administrator elects to value assets at an alternate valuation date, 6 months from the date of death, described in IRC section 2032. Alternate value may be elected only if the value of the estate, as well as the estate tax, is reduced between the date of death and the alternate date. The estate tax return is due 9 months from the date of the decedent’s death, although a 6-month extension may be allowed.

Who Files Federal Estate Tax Returns?: A Look at the Decedent Population

In 2001, some 108,330 individuals died with gross estates above the estate tax exclusion amount of

Figure A

Federal Transfer Tax Rates, by Year of Transfer, 2001-2011

Year of transfer	Estate tax exclusion (\$)	Generation-skipping transfer (GST) tax exclusion (\$)	Highest estate and GST tax rate (percent)	Gift tax exclusion (\$)	Highest gift tax rate (percent)
	(1)	(2)	(3)	(4)	(5)
2001.....	675,000	1,000,000	55	675,000	55
2002.....	1,000,000	1,000,000	50	1,000,000	50
2003.....	1,000,000	1,000,000	49	1,000,000	49
2004.....	1,500,000	1,500,000	48	1,000,000	48
2005.....	1,500,000	1,500,000	47	1,000,000	47
2006.....	2,000,000	2,000,000	46	1,000,000	46
2007.....	2,000,000	2,000,000	45	1,000,000	45
2008.....	2,000,000	2,000,000	45	1,000,000	45
2009.....	3,500,000	3,500,000	45	1,000,000	45
2010.....	Unlimited	Unlimited	N/A	1,000,000	35
2011.....	1,000,000	1,000,000	55	1,000,000	35

N/A--Not applicable.

NOTE: In 2010 and 2011, the highest gift tax rate equals the highest Federal income tax rate.

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

\$675,000 in assets. These decedents owned more than \$198.8 billion in total assets and reported almost \$20.8 billion in net estate tax liability. Estate tax decedents in 2001 represented less than 1 percent of the total U.S. population, according to population data from the U.S. Bureau of the Census, and the deaths of estate tax decedents represented 4.6 percent of all deaths that occurred for Americans during 2001, according to vital statistics data collected by the U.S. National Center for Health Statistics [3]. Estate tax decedents for whom a tax liability was reported, 49,845, represented only 2.1 percent of the U.S. decedent population for 2001.

While both the living and dying populations were almost equally divided between the sexes in 2001, as females comprised 50.9 percent of the total U.S. population and 51.2 percent of adult deaths, the 2001 population of estate tax decedents included a slight majority of males, 56,050, or 51.7 percent of estate tax decedents (Figure B) [4].

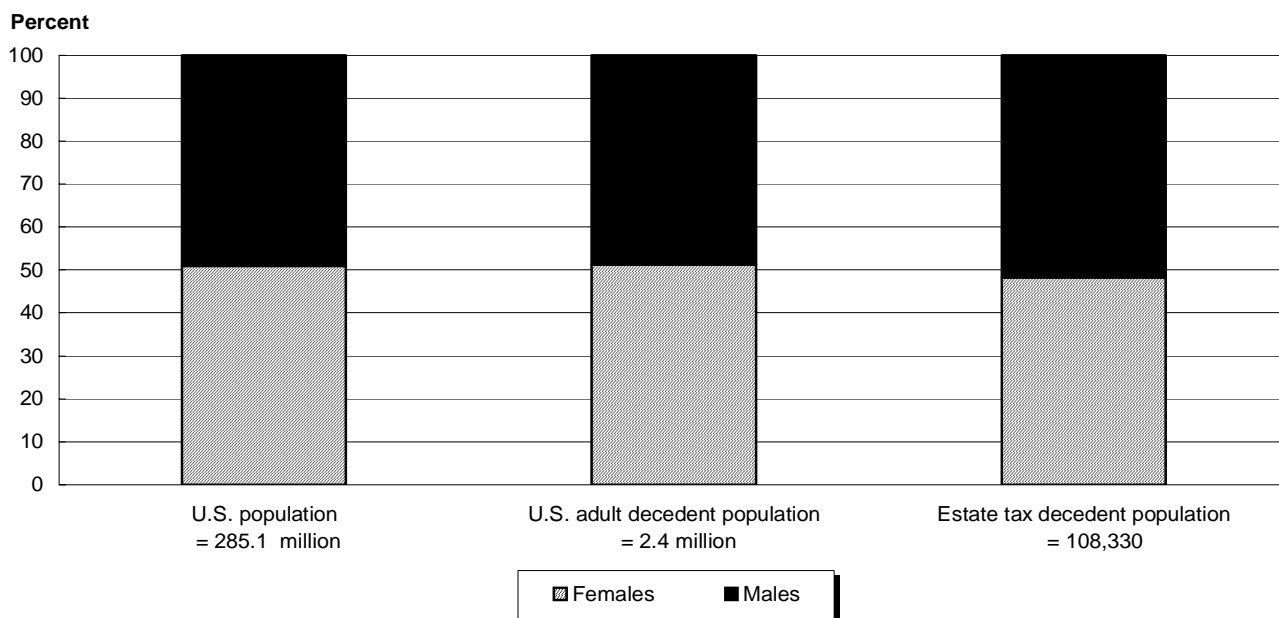
Figure C shows average age at death for estate tax decedents and other U.S. decedents for selected years of death. For all years, including year-of-death

2001, ages at death for estate tax decedents followed life expectancy patterns observed in the U.S. population, with females outliving their male counterparts. However, the longevity of U.S. women, evidenced in the general U.S. population, is even more pronounced in the population of estate tax decedents. For example, while U.S. women, on average, live 79.8 years, according to 2001 life expectancy data from the National Center for Health Statistics, female estate tax decedents lived, on average, 82.0 years [5]. Also in year-of-death 2001, male estate tax decedents lived, on average, 76.9 years, about 5 years less than female estate tax decedents. Male estate tax decedents did exceed the life expectancy of their nonestate tax counterparts, since the average expected age at death for all U.S. males in 2001 was 74.4 years.

Figure D presents the age composition of the 2001 estate tax decedent population. Decedents who were at least 80 years old but under 90 made up the largest share, 38.1 percent, of the 2001 estate tax decedent population. The second and third largest shares were decedents in the “70 under 80” and “90

Figure B

Composition of Living and Decedent Populations in 2001, by Sex

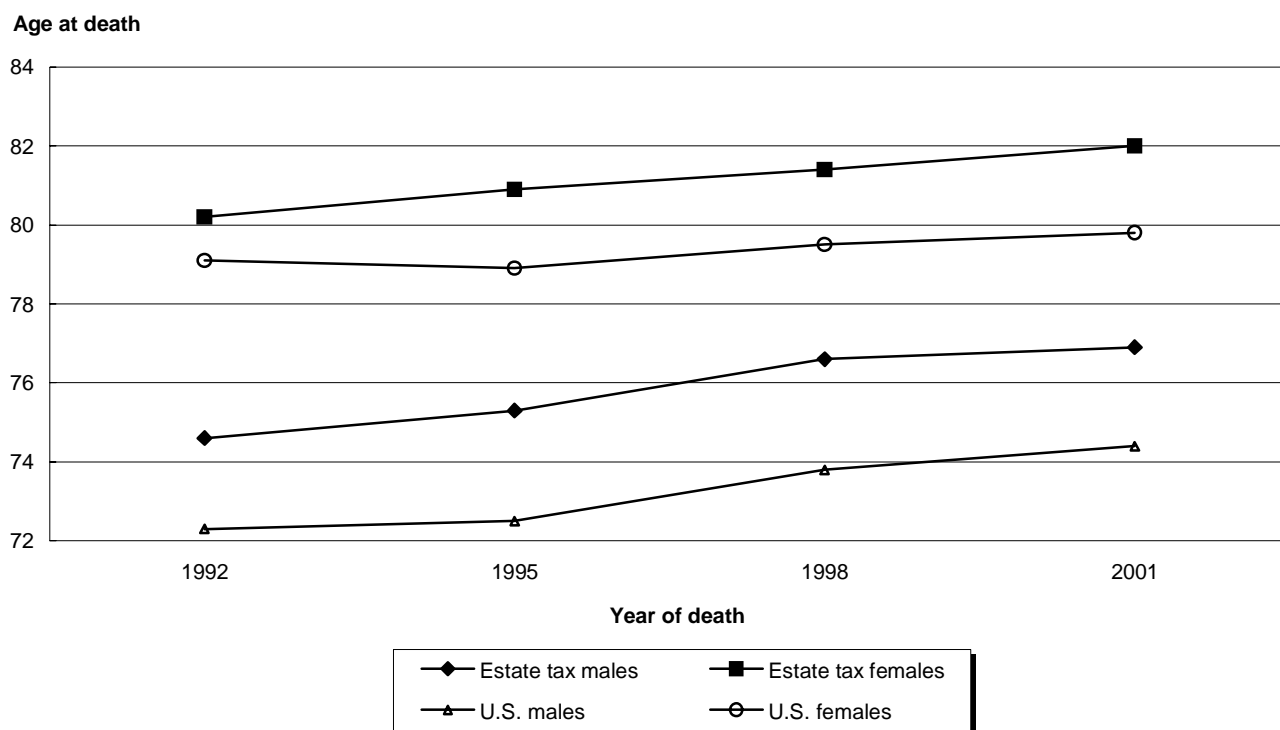


NOTE: Population estimates produced by Population Division, U.S. Census Bureau, December 2004. Death statistics produced by National Center for Health Statistics, U.S. Department of Health and Human Services, September 2003.

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure C

Average Age at Death for Estate Tax and U.S. Decedents, Selected Years of Death



NOTE: Life expectancy data produced by National Center for Health Statistics, U.S. Department of Health and Human Services, November 2004.

and older” categories, at 24.4 percent and 19.4 percent of the decedent population, respectively.

A decedent’s marital status at death reasonably predicts whether or not the estate reports an estate tax liability. In the 2001 estate tax decedent population, 43.4 percent of decedents were married at death, while the remaining members of the population, 56.6 percent, were either widowed, single, divorced, legally separated, or marital status unknown (Figure E). For married decedents, only 10.4 percent reported a tax liability, compared to a much higher likelihood of reported liability in the other categories; between 69.7 percent and 74.3 percent of decedents in these other categories reported a tax liability (Figure F). For decedents who are married at death, executors may use the unlimited marital deduction to avoid liability. Under the deduction, the first spouse to die may leave an unlimited amount of property to the surviving spouse and, thereby, postpone payment of estate taxes until the death of the second spouse.

The greater probability of female estate tax decedents to report a tax liability, compared to their male counterparts, may be explained by a combination of marital status and age at death. Estates of females are taxable in 58.0 percent of all cases, whereas estates of males are taxable in only 34.9 percent of all cases. However, as Figure G shows, female decedents are more likely to be widowed, since they live longer than their spouses, while male decedents are more likely to be married and therefore utilize the available marital deduction. For the 2001 population as a whole, females bequeathed only \$11.8 billion to their spouses, while males bequeathed almost \$47.0 billion.

Asset Portfolios in 2001

In accordance with IRS rules and to substantiate reported values of total gross estate, tax preparers must supply inventories of decedents’ asset portfolios on Federal estate tax returns. Reported asset values

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure D

Age Composition of 2001 Estate Tax Decedents

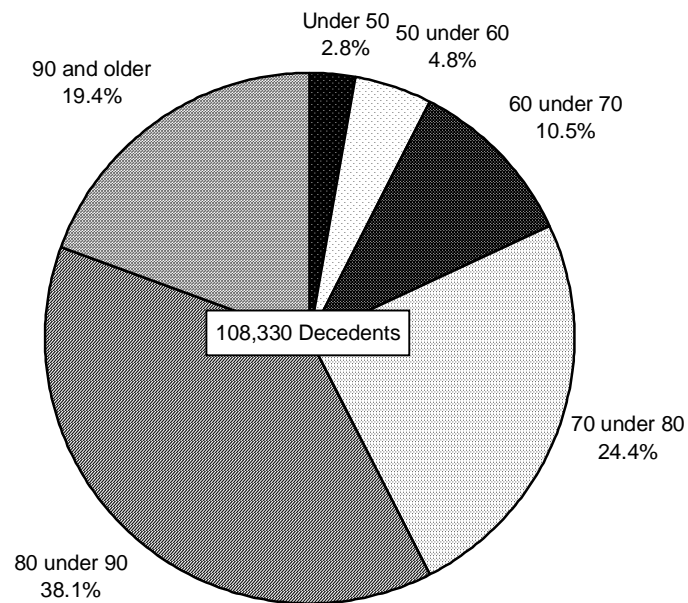
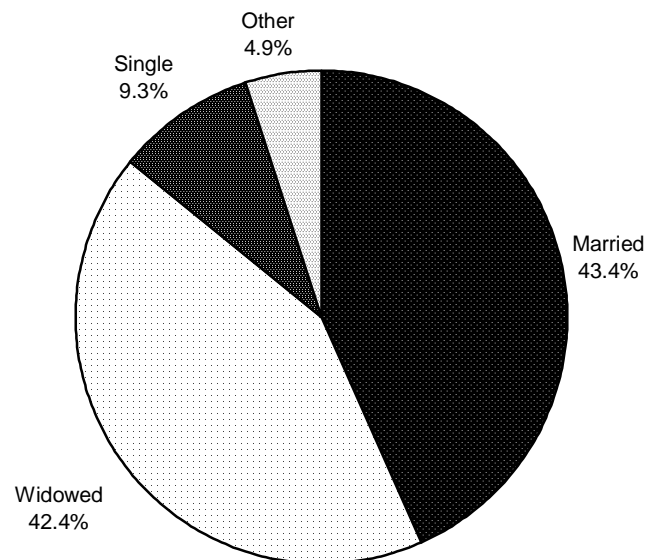


Figure E

2001 Estate Tax Decedents, by Marital Status



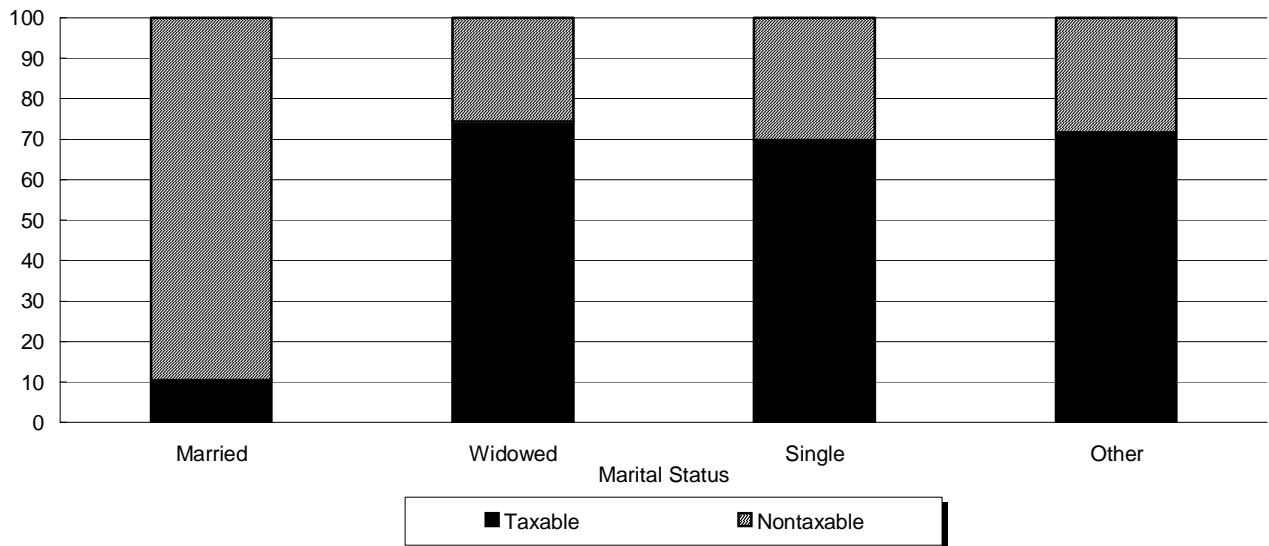
NOTE: Other category includes divorced, legally separated, or marital status unknown.

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure F

Percentage of Taxable and Nontaxable Returns, by Marital Status of 2001 Estate Tax Decedents

Percent

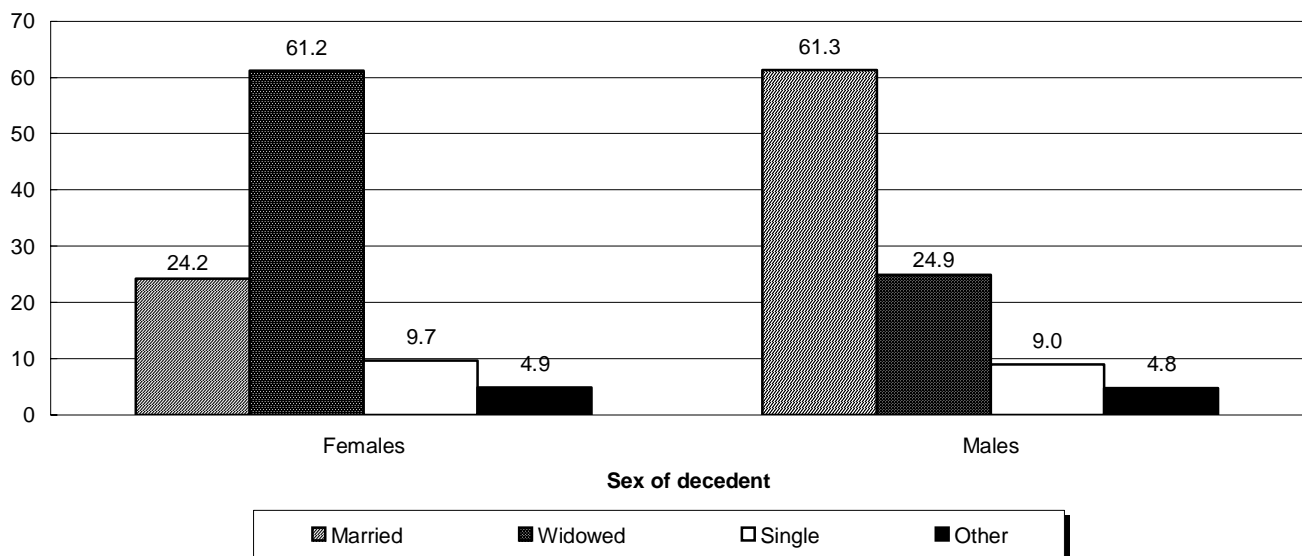


NOTE: Other category includes divorced, legally separated, or marital status unknown.

Figure G

Marital Status of 2001 Estate Tax Decedents, by Sex

Percent



NOTE: Other category includes divorced, legally separated or marital status unknown.

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

may be reduced from FMV by the use of valuation discounts for certain characteristics or qualities of ownership, such as lack of control or lack of marketability. The figures reported in this section are postdiscount figures, i.e., after the value of ownership interests have been reduced by any discounts.

Of the reported \$198.8 billion in total assets, estates for decedents who died in 2001 reported more than \$57.7 billion in publicly traded stock (Figure H). This asset, the largest for 2001 decedents, represented 29.1 percent of total assets. The second largest asset, \$25.3 billion, was cash holdings, including savings and checking accounts, certificates of deposit, and money market accounts. Estates held \$19.5 billion in tax-exempt State and local bonds, making them the third largest asset for 2001 decedents.

The estates of female decedents held 44.5 percent of total assets for 2001 decedents. Of their

Figure H

Asset Composition for Estates of 2001 Decedents

[Money amounts are in thousands of dollars]

Asset type	Amount ¹	Percent of total gross estate
Total.....	198,817,746	100.0
Publicly traded stock.....	57,769,533	29.1
Cash assets.....	25,256,373	12.7
Tax exempt bonds.....	19,499,222	9.8
Personal residence.....	18,485,277	9.3
Retirement assets.....	17,275,169	8.7
Investment real estate ²	17,073,481	8.6
Closely held stock.....	7,138,728	3.6
Insurance.....	6,628,807	3.3
Farm, includes real estate.....	6,262,864	3.2
Federal bonds.....	5,953,771	3.0
Other financial assets.....	4,354,121	2.2
Noncorporate business assets.....	3,857,984	1.9
Mortgages and notes.....	3,184,260	1.6
Family limited partnerships.....	1,666,200	0.8
Other assets.....	4,412,025	2.2

¹ For tax purposes.

² Net of conservation easement exclusion.

NOTE: Detail may not add to totals because of rounding.

reported \$88.5 billion in assets, these females, at their deaths, held 32.5 percent, or \$28.8 billion, in publicly traded stock (Figure I). Stock investments were, by far, their largest asset holding. Cash assets and tax-exempt State and local bonds were females' second and third largest holdings. Cash represented 14.8 percent of their total portfolio, and State and local bonds represented 11.3 percent of the portfolio.

Figure I

Asset Composition for Estates of 2001 Female Decedents

[Money amounts are in thousands of dollars]

Asset type	Amount ¹	Percent of total gross estate
Total.....	88,501,781	100.0
Publicly traded stock.....	28,758,569	32.5
Cash assets.....	13,065,968	14.8
Tax exempt bonds.....	10,030,879	11.3
Personal residence.....	8,771,913	9.9
Investment real estate ²	7,066,107	8.0
Retirement assets.....	4,870,164	5.5
Federal bonds.....	3,136,635	3.5
Farm, includes real estate.....	2,486,858	2.8
Other financial assets.....	2,288,748	2.6
Closely held stock.....	1,772,606	2.0
Mortgages and notes.....	1,159,184	1.3
Noncorporate business assets.....	1,151,742	1.3
Insurance.....	1,029,925	1.2
Family limited partnerships.....	719,906	0.8
Other assets.....	2,192,597	2.5

¹ For tax purposes.

² Net of conservation easement exclusion.

NOTE: Detail may not add to totals because of rounding.

Estates of male decedents reported \$110.3 billion in total assets, of which 26.3 percent consisted of publicly traded stock, the largest investment for male decedents (Figure J). Investment in retirement assets, including contribution-type plans, such as

Figure J

Asset Composition for Estates of 2001 Male Decedents

[Money amounts are in thousands of dollars]

Asset type	Amount ¹	Percent of total gross estate
Total.....	110,315,966	100.0
Publicly traded stock.....	29,010,964	26.3
Retirement assets.....	12,405,005	11.2
Cash assets.....	12,190,405	11.1
Investment real estate ²	10,007,374	9.1
Personal residence.....	9,713,364	8.8
Tax exempt bonds.....	9,468,342	8.6
Insurance.....	5,598,882	5.1
Closely held stock.....	5,366,122	4.9
Farm, includes real estate.....	3,776,005	3.4
Federal bonds.....	2,817,136	2.6
Noncorporate business assets.....	2,706,242	2.5
Other financial assets.....	2,065,373	1.9
Mortgages and notes.....	2,025,076	1.8
Family limited partnerships.....	946,295	0.9
Other assets.....	2,219,428	2.0

¹ For tax purposes.

² Net of conservation easement exclusion.

NOTE: Detail may not add to totals because of rounding.

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

401K's, IRA's, and Keoghs, and annuity-type plans, were the second largest investment, worth \$12.4 billion and 11.2 percent of total assets. Male decedents held \$12.2 billion in cash assets, their third largest portfolio asset.

While valuation discount data are not available for year-of-death 2001, Filing Year 2001 data are available and may lend some perspective to year-of-death figures [6]. Estates for Filing Year 2001 reported \$3.6 billion in valuation discounts, or 1.7 percent of total gross estate, across all asset categories, and those estates most frequently reduced the value of stock, real estate, and noncorporate business assets (Figure K). Figure L presents the reported

common organizational and legal entity. The limited partnership consists of a general partner, who manages daily business activity and assumes much of the financial burden of the business, and limited partners, who invest capital in the business but have limited liability.

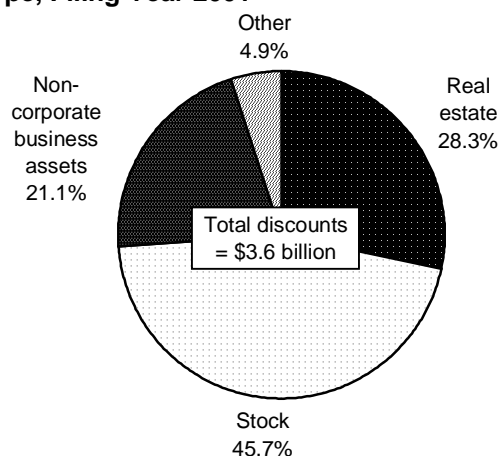
While family-owned businesses are frequently organized as limited partnerships, for several years now, wealth management and estate planning professionals have advocated use of the entities as tax shelters for family wealth. In these family limited partnerships (FLP's), which may hold a variety of assets, including common stock, real estate, and cash or cash equivalents, parents typically retain only a small general partnership interest and slowly give limited partnership interests to their children through lifetime gifts--using the annual exclusion available under the Federal gift tax--or bequests. For the parent who is a general partner, the primary goal of this arrangement is to reduce the wealth that will eventually be included in his or her estate or the estate of any surviving spouse.

For decedents who died in 2001, only a small fraction, 1.7 percent, of estates included interests in family limited partnerships, whether operating family businesses or mere estate-planning devices. These 1,880 estates reported almost \$1.7 billion in family limited partnership interests (Figure M). Relatively small estates, those with total assets greater than \$1.0 million but less than \$2.5 million, represented 42.3 percent of all estates that reported FLP's. This category of estate held \$347.8 million in FLP assets. The next two larger estate categories, \$2.5 million under \$5.0 million and \$5.0 million under \$10.0 million, included similar FLP holdings, \$277.6 million and \$336.4 million, respectively. Estates with FLP's were almost equally divided in terms of taxability, with 47.9 percent reporting a tax liability and 52.1 percent reporting no liability.

Figure N presents the overall asset composition of FLP's, as reported by estates. By far, the two most prevalent FLP assets were stock and real estate. Total stock holdings, including closely held and common stock, or publicly traded stock, represented almost a third, 32.9 percent, of all FLP assets, although publicly traded stock made up the largest share, 85.6 percent (\$468.5 million), of stock holdings. Total real estate represented 30.9 percent of FLP assets and included personal residences, im-

Figure K

Composition of Valuation Discounts, by Asset Type, Filing Year 2001



NOTE: Other category includes bonds, mortgages and notes, mutual funds, cash assets, depletables/intangibles, farm assets, and insurance.

reduction in value attributable to discounts. Reported discounts for Filing Year 2001 reduced the value of stock, both common and closely held, by 2.1 percent, the value of real estate by 2.3 percent, and the value of noncorporate business assets by 13.3 percent.

Estates with Family Limited Partnership Interests

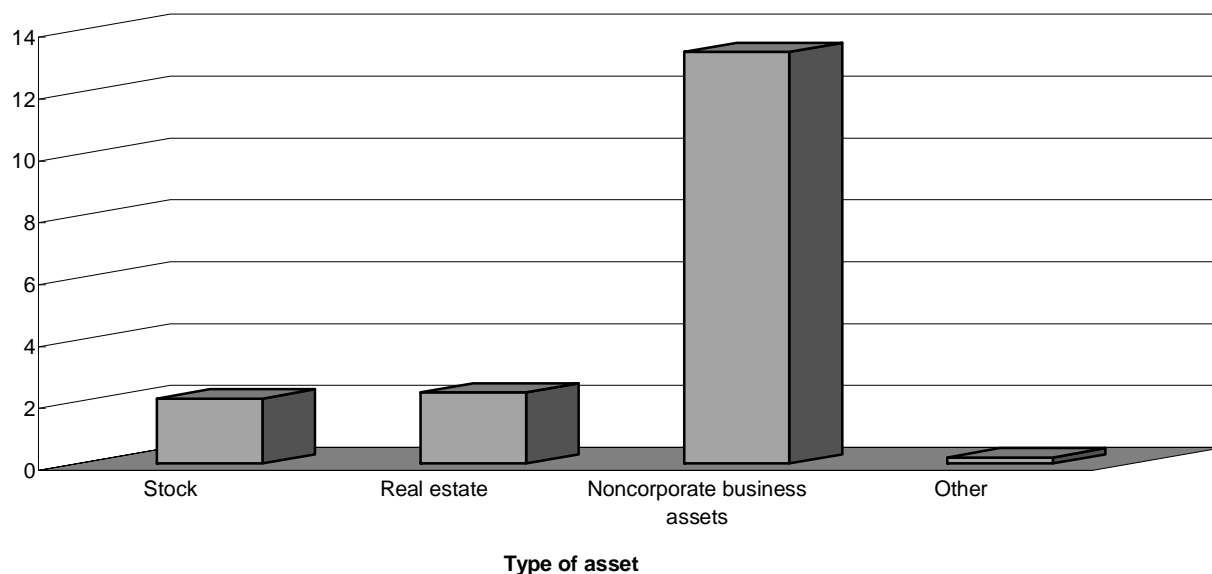
For business owners across all sectors of the U.S. economy, especially in oil and gas, real estate, and equipment leasing, the limited partnership is a

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure L

Reduction in Value of Assets Due to Discounts, Filing Year 2001

Percent reduction



NOTE: Other category includes bonds, mortgages and notes, mutual funds, cash assets, depletables/intangibles, farm assets, and insurance.

proved and unimproved real estate, real estate partnerships, and real estate mutual funds, such as real estate investment trusts (REIT's). Estates reported bonds as the third largest asset category in FLP's. Included in this category, which represented 10.9 percent of all FLP holdings, are bonds of many types, including Federal savings and other Federal bonds, corporate, foreign, State, and local bonds, as well as bond funds. While 10.8 percent of all FLP assets were either limited partnership interests or FLP's with undeterminable content, the remaining 14.5 percent of FLP assets were distributed across a handful of asset categories: cash assets, such as money market accounts and certificates of deposit; noncorporate business assets; mortgages and notes; other assets, including life insurance and retirement assets; and mixed mutual funds, which contain a variety of investment instruments [7].

The estates of female and male decedents held similar assets in family limited partnerships, although the distribution of asset types across partnerships varied somewhat by sex (Figure O). For both sexes, less than 2.0 percent of estates held FLP assets; 1.8

percent of females and 1.6 percent of males reported FLP holdings at death. The estates of females held \$719.9 million in FLP assets, and the estates of males held \$946.3 million in FLP assets, although, for both, FLP assets represented just less than 1.0 percent of total gross estate for all decedents. However, FLP assets made up a much larger percentage of total gross estate for those decedents who held FLP assets. For women with FLP assets, those assets represented 28.2 percent of their total gross estate. For men with FLP assets, those assets represented 26.2 percent of their total gross estate.

All estates, for both females and males, reported stock, real estate, bonds, and limited partnerships/unallocable FLP's as the top four asset holdings. However, the asset-holding patterns within the top four categories differed slightly by decedent sex. Estates of females reported stock as the largest category of FLP assets, as stock made up 32.6 percent of all FLP assets; publicly traded stock was 28.5 percent of FLP assets, and closely held stock was 4.1 percent of FLP assets. Females reported all real estate as the second largest FLP asset category

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure M

Family Limited Partnership Holdings, by Tax Status and Size of Gross Estate, Tax Purposes, 2001 Decedents

[Money amounts are in thousands of dollars]

Tax status and size of gross estate, tax purposes	Family limited partnerships	
	Number	Amount
All returns.....	1,880	1,666,200
\$675,000 under \$1.0 million.....	471	144,494
\$1.0 million under \$2.5 million.....	795	347,750
\$2.5 million under \$5.0 million.....	333	277,582
\$5.0 million under \$10.0 million.....	173	336,448
\$10.0 million under \$20.0 million.....	76	302,183
\$20.0 million or more.....	32	257,743
Taxable returns.....	900	977,366
\$675,000 under \$1.0 million.....	226	69,027
\$1.0 million under \$2.5 million.....	294	136,646
\$2.5 million under \$5.0 million.....	194	179,928
\$5.0 million under \$10.0 million.....	117	230,629
\$10.0 million under \$20.0 million.....	49	198,243
\$20.0 million or more.....	21	162,893
Nontaxable returns.....	980	688,834
\$675,000 under \$1.0 million.....	246	75,467
\$1.0 million under \$2.5 million.....	500	211,103
\$2.5 million under \$5.0 million.....	139	97,654
\$5.0 million under \$10.0 million.....	57	105,820
\$10.0 million under \$20.0 million.....	27	103,940
\$20.0 million or more.....	11	94,850

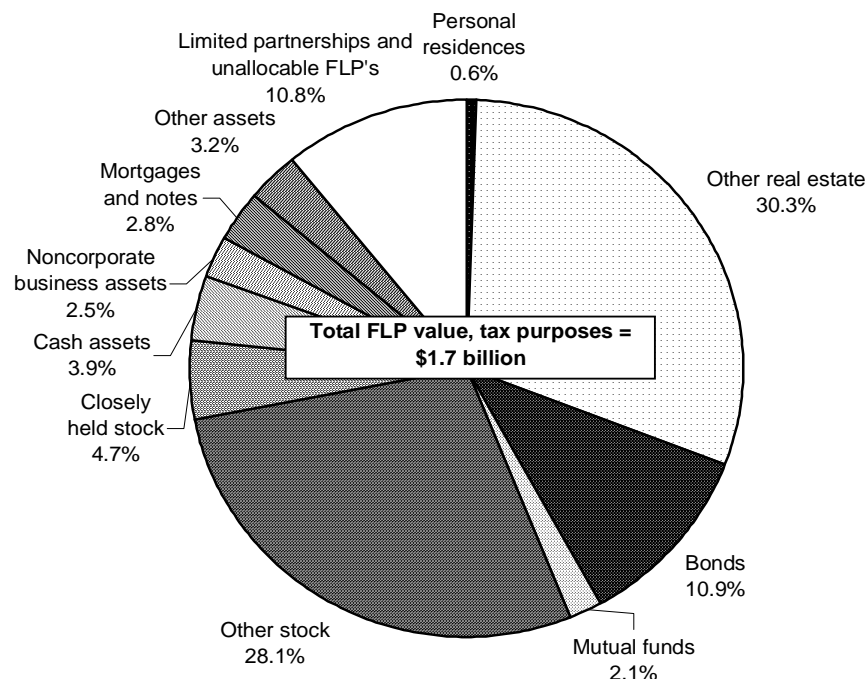
at 27.7 percent of all FLP assets; personal residences were only 0.7 percent of all FLP assets. Bonds and limited partnerships/unallocable FLP's were females' third and fourth largest FLP asset categories, respectively.

For the estates of male decedents, real estate and stock were almost equally popular as FLP asset holdings. All real estate was narrowly the largest FLP asset category; 33.4 percent of all FLP assets were real estate holdings. Personal residences were only a small component of FLP real estate holdings. Stock, both publicly traded and closely held, together made up 33.0 percent of all FLP assets; publicly traded stock made up 27.8 percent of all FLP assets, while closely held stock made up 5.2 percent of all FLP assets. Males held limited partnerships/unallocable FLP's and bonds as the third and fourth largest FLP assets, respectively.

Investment in mixed mutual funds differed between the sexes. While estates of females reported mutual funds as their fifth largest asset category of FLP's, estates of males reported mutual funds as the least popular FLP holding. Just less than 4.0 percent of females' FLP assets were held in mutual funds, and only 0.8 percent of males' assets were held in such funds.

Figure N

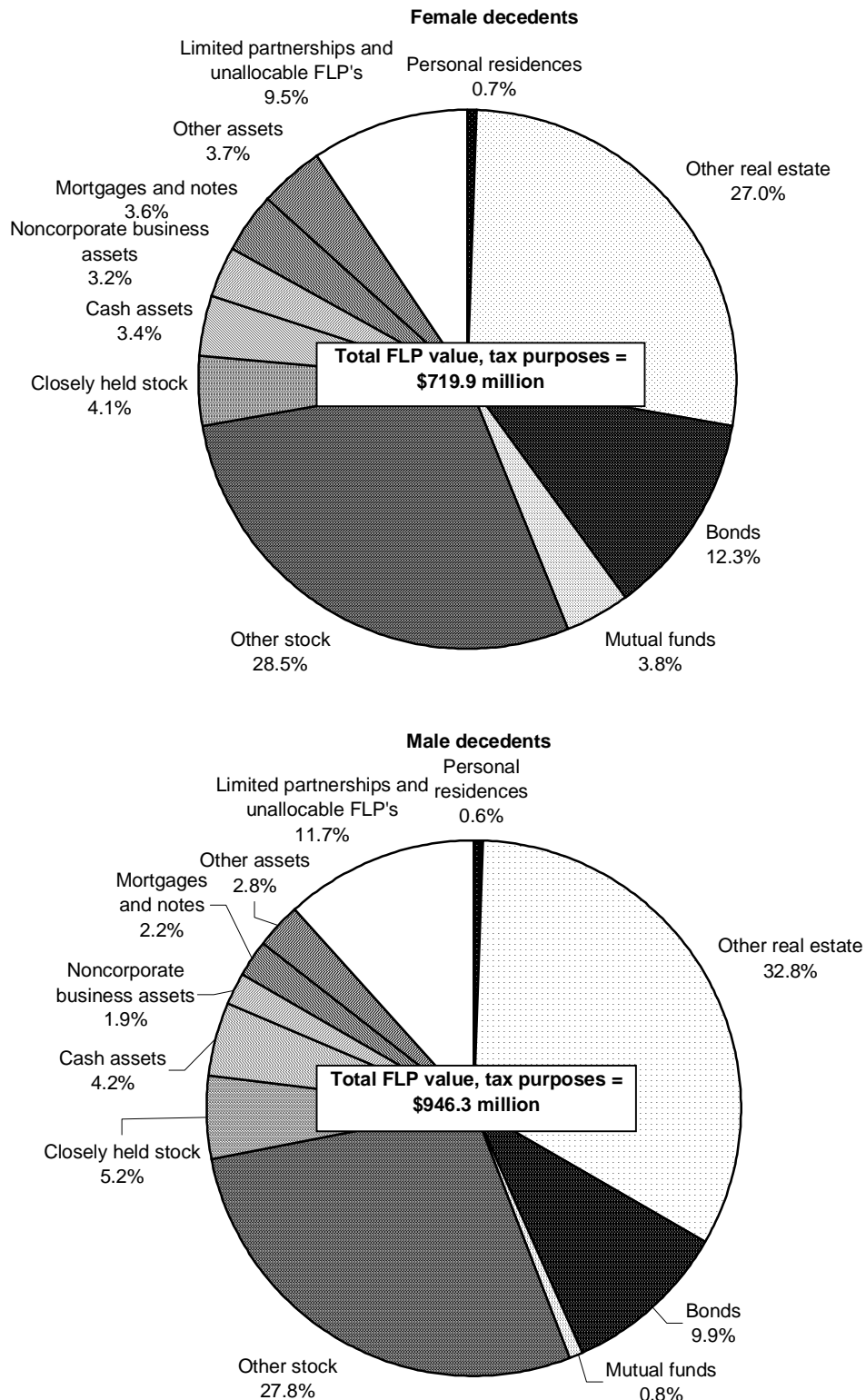
Composition of Family Limited Partnerships, 2001 Estate Tax Decedents



Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure 0

Composition of Family Limited Partnerships, by Sex, 2001 Estate Tax Decedents



Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure P

Family Limited Partnership Holdings, by Marital Status, 2001 Estate Tax Decedents

[Money amounts are in thousands of dollars]

Marital status	All decedents	Decedents with family limited partnership holdings			Percent of all decedents with family limited partnership holdings
		Number	Amount	Average FLP Value	
	(1)	(2)	(3)	(4)	(5)
Total.....	108,330	1,880	1,666,200	886	1.7
Married.....	47,034	1,118	976,078	873	2.4
Widowed.....	45,931	648	577,633	891	1.4
Single.....	10,103	71	54,313	765	0.7
Other.....	5,262	43	58,176	1,353	0.8

NOTE: Other category includes divorced, legally separated, or marital status unknown.

Figure Q

Family Limited Partnership Holdings, by Age at Death, 2001 Decedents

[Money amounts are in thousands of dollars]

Age	All decedents	Decedents with family limited partnership holdings			Percent of all decedents with family limited partnership holdings
		Number	Amount	Average FLP Value	
	(1)	(2)	(3)	(4)	(5)
Total.....	108,330	1,880	1,666,200	886	1.7
Under 50.....	3,092	50	31,536	631	1.6
50 under 60.....	5,240	80	77,932	974	1.5
60 under 70.....	11,353	216	205,488	951	1.9
70 under 80.....	26,383	523	370,080	708	2.0
80 under 90.....	41,225	783	658,231	841	1.9
90 and older.....	21,037	228	322,933	1,416	1.1

Figures P and Q present FLP data for 2001 decedents by marital status and age, respectively. Estates of married decedents most frequently reported family limited partnerships, with 2.4 percent of all married decedents holding FLP assets. Estates of widowed decedents reported FLP assets in 1.4 percent of all cases. Of course, married and widowed decedents are more likely than other decedents to have children to whom they may pass limited partnership interests. Estates of decedents who were single were least likely to report FLP assets; only 0.8 percent of these decedents held assets in such partnerships. These decedents reported \$765,000 in FLP assets per estate.

In terms of age, decedents between the ages of 60 and 89 were almost equally likely to hold FLP assets. About 2.0 percent of these estates reported family limited partnerships. Estates of the oldest decedents, those 90 and older, reported FLP holding with the least frequency. Of course, this is expected, given that these oldest decedents have had years to pass partnership interests to children and others.

Estates of decedents 90 and older reported the largest average FLP holdings, about \$1.4 million per estate, while estates of decedents under 50 reported the smallest average FLP holdings, \$630,700 per estate. These youngest decedents were still accumulating wealth at the time of their deaths and certainly had not begun to consider asset divestiture plans, such as the formation of FLP's and the "gifting" of FLP interests.

In addition to reducing the size of an individual's eventual estate, gifting interests in a family limited partnership is attractive for another reason. Because limited partnership interests have little, if any, influence on the activity of a partnership, the valuation of these interests may be significantly reduced by valuation discounts, such as discounts for lack of control or lack of marketability. Use of substantial discounts allows estates to minimize both the value of the reported limited partnership interest and the reported Federal estate or gift tax liability. The figures reported in this section are postdiscount figures, i.e., after the value of FLP interests have been reduced

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

by any discounts. This means that decedents who died in 2001 transferred property that was originally valued at more than the reported \$1.7 billion in FLP assets. According to IRS estate and gift tax attorneys, who review and audit Federal estate tax returns, and various private-sector studies of valuation discounting, recent discounts of FLP interests fall between 30 percent and 60 percent [8].

Charitable Giving by 2001 Estate Tax Decedents

Deductions allowed in the calculation of taxable estate, defined as gross estate less deductions, include funeral expenses, executors' commissions, attorneys' fees, other administrative expenses and losses, debts and mortgages, medical debts, bequests to surviving spouses, and charitable contributions. According to IRC section 2055, "the value of the taxable estate shall be determined by deducting from the value of the gross estate the amount of all bequests, legacies, devises, or transfers" to qualifying charitable institutions, including organizations that conduct religious, charitable, scientific, literary, and educational activities, among others.

In year of death 2001, some 17.2 percent of all estate tax decedents left bequests to qualifying charitable organizations. Gross charitable bequests exceeded \$12.7 billion, which was equivalent to 6.4 percent of all decedents' total gross estate and 6.6 percent of their combined net worth, defined as total assets less outstanding debts or liabilities.

Charitable organizations are divided into categories that describe their general activities and are set forth in the National Taxonomy of Exempt Entities (NTEE) Classification System developed by the National Center for Charitable Statistics. The largest combined bequest went to qualifying organizations that promote philanthropy and giving. Decedent donors left \$3.6 billion in cash and other assets to these types of organizations, 28.0 percent of total bequests (Figure R). Educational organizations that are formally constituted and organizations that support educational entities received \$3.3 billion in bequests from decedents who died in 2001. This bequest represented a little more than a quarter of all bequests. Religious and spiritual development charities received \$1.8 billion in bequests, or 13.8 percent of total bequests; this category does not include educational institutions, hospitals, etc., operated by

Figure R

Top Charitable Bequests to Recipient Organizations, 2001 Estate Tax Decedents

[Money amounts are in thousands of dollars]

Type of organization	Bequest amount	Percent of total bequests
Total.....	12,789,478	100.0
Philanthropy, volunteerism (T).....	3,582,454	28.0
Educational institutions (B).....	3,298,870	25.8
Religion, spiritual development (X).....	1,761,989	13.8
Health, general, and rehabilitative (E).....	971,839	7.6
Human service (P).....	701,464	5.5
Disease, disorder, and medical disciplines (G).....	446,553	3.5
Arts, culture, humanities (A).....	436,522	3.4
Other/unknown.....	1,589,787	12.4

NOTES: National Taxonomy of Exempt Entities (NTEE) code is given in parentheses. In all, there are 26 entity types in the NTEE system of coding. Here, other/known category includes all other entity types not specifically listed and entity type unknown. In Table 4 of this article, entity types are combined into 10 broad categories.

Charitable bequests presented in this figure are gross charitable bequests. Unlike the charitable deduction value reported in Table 2 of this article, gross charitable bequests have not been reduced by Federal estate, generation-skipping, and State death taxes. Since the charitable deduction is not allowed for these taxes that are paid out of property designated for charity, gross charitable bequests are larger than the charitable deduction.

religious groups, as these institutions are allocated to charitable contribution categories by activity rather than ownership.

While the estate tax decedent population is almost equally divided between females and males, the population of decedent donors consists of a female majority, as 62.0 percent of the donor population were women. However, this is mostly the result of females' longevity and likely marital status at death. Because women live longer than men, women are more likely to die without spouses designated as beneficiaries; charities and children are the logical recipients of these estates. In fact, widowed females were the largest segment of the donor population, 42.5 percent of all decedent donors, and they bequeathed the largest share, 46.7 percent, of total bequests (Figure S). Compared to their male counterparts, widowed females gave a larger proportion of their net worth to charities. Widowed females gave 30.6 percent of their net worth, while widowed males gave 26.4 percent of their net worth. However, females and males who were single at death gave the largest proportions of their net worth to charity, 39.0 percent and 37.7 percent, respectively.

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure S

Charitable Bequests and Net Worth, by Sex and Marital Status, 2001 Estate Tax Decedents

[Money amounts are in thousands of dollars]

Sex and marital status		Charitable bequests		Net worth	Bequests as percent of net worth
		Number	Amount	Amount	
		(1)	(2)	(3)	
All Decedents	Total.....	18,639	12,789,478	47,356,212	27.0
	Married.....	2,940	1,398,254	10,530,732	13.3
	Widowed.....	10,758	7,937,309	27,004,449	29.4
	Single.....	3,991	2,926,189	7,628,322	38.4
	Other.....	949	527,725	2,192,709	24.1
Female Decedents	Total.....	11,553	8,084,705	26,803,137	30.2
	Married.....	825	328,892	2,274,839	14.5
	Widowed.....	7,925	5,970,603	19,540,836	30.6
	Single.....	2,267	1,559,344	4,002,914	39.0
	Other.....	536	225,865	984,548	22.9
Male Decedents	Total.....	7,086	4,704,773	20,553,075	22.9
	Married.....	2,116	1,069,362	8,255,893	13.0
	Widowed.....	2,833	1,966,706	7,463,613	26.4
	Single.....	1,725	1,366,845	3,625,407	37.7
	Other.....	413	301,860	1,208,161	25.0

NOTES: Charitable bequests presented in this figure are gross charitable bequests. Unlike the charitable deduction value reported in Table 2 of this article, gross charitable bequests have not been reduced by Federal estate, generation-skipping, and State death taxes. Since the charitable deduction is not allowed for these taxes that are paid out of property designated for charity, gross charitable bequests are larger than the charitable deduction. Other category includes divorced, legally separated, or marital status unknown.

Charitable bequest data by sex suggest that female and male decedents, as charitable donors, ascribe to somewhat similar giving patterns. The top seven categories of recipient charities were the same for females and males (Figure T). Overall, however, women and men did not always show similar preferences among charities. Educational institutions received the largest bequest from the estates of females, with 26.5 percent of females' bequests going to such organizations. Organizations that promote philanthropy and giving, such as private grantmaking foundations, received the largest bequest from the estates of males, with 32.9 percent of males' bequests going to that type of organization. Philanthropic and giving organizations received females' second largest bequest, which accounted for 25.2 percent of their total charitable bequests, while educational institutions received males' second largest bequest, representing 24.5 percent of their total bequests to charity.

Estates' Use of Special Provisions for Small and Closely Held Businesses

The U.S. Congress, through enactment of additions and changes to existing Federal estate tax law, has introduced several special, protective provisions for small and closely held businesses, including farms and

other family-owned enterprises. With the Tax Reform Act of 1976, Congress protected farms and closely held businesses by providing for special use valuation of decedents' interests in such property. The value of property included in gross estate is generally the fair market value based on property's potential "highest and best use." However, if real property that is devoted to a farm or closely held business meets several requirements, the executor may elect to value the property at its "special," or actual, use in the business [9].

For 2001, only 831 estates, 0.8 percent of all estates, reported special use valuation for real property (Figure U). The largest percentage of those elections, 48.7 percent, were protective elections that were contingent upon final property values [10]. Estates elected special use valuation for farm property in 47.8 percent of all cases, while only 3.5 percent of all elections were made for nonfarm property or farm and nonfarm property.

Reported fair market value for qualifying property was \$377.2 million, and the property value decreased to \$189.0 million for qualifying purposes (Figure V). Estates in the mid-sized gross estate category, \$1.0 million under \$5.0 million, made up the majority of those that made nonprotective, special use elections, and mid-sized estates most frequently,

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure T

Top Charitable Bequests to Recipient Organizations, by Sex of 2001 Estate Tax Decedents

[Money amounts are in thousands of dollars]

Type of organization	Bequest amount	Percent of total bequests
Females		
Total.....	8,084,706	100.0
Educational institutions (B).....	2,143,887	26.5
Philanthropy, volunteerism (T).....	2,034,655	25.2
Religion, spiritual development (X).....	1,187,631	14.7
Health, general & rehabilitative (E).....	735,753	9.1
Human service (P).....	471,692	5.8
Disease, disorder & medical disciplines (G)...	352,538	4.4
Arts, culture, humanities (A).....	242,551	3.0
Other/unknown.....	915,999	11.3
Males		
Total.....	4,704,773	100.0
Philanthropy, volunteerism (T).....	1,547,798	32.9
Educational institutions (B).....	1,154,983	24.5
Religion, spiritual development (X).....	574,358	12.2
Health, general & rehabilitative (E).....	236,087	5.0
Human service (P).....	229,773	4.9
Arts, culture, humanities (A).....	193,971	4.1
Disease, disorder & medical disciplines (G)...	94,015	2.0
Other/unknown.....	673,788	14.3

NOTES: National Taxonomy of Exempt Entities (NTEE) code is given in parentheses. In all, there are 26 entity types in the NTEE system of coding. Here, other/known category includes all other entity types not specifically listed and entity type unknown. In Table 4 of this article, entity types are combined into 10 broad categories.

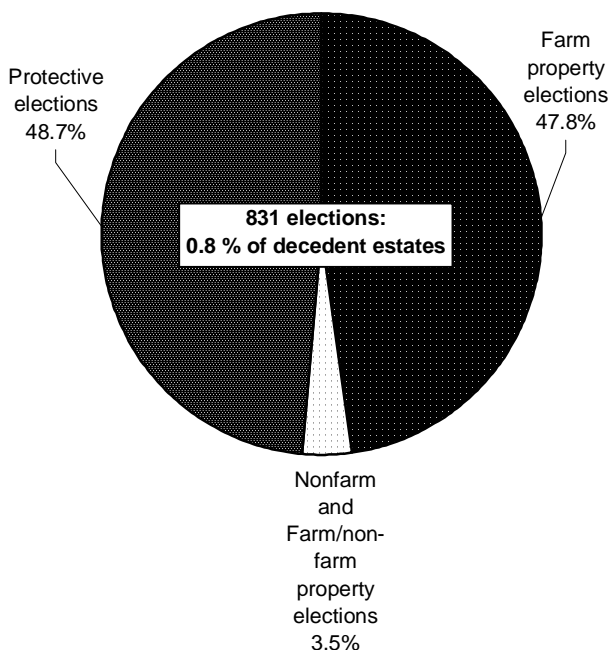
Charitable bequests presented in this figure are gross charitable bequests. Unlike the charitable deduction value reported in Table 2 of this article, gross charitable bequests have not been reduced by Federal estate, generation-skipping, and State death taxes. Since the charitable deduction is not allowed for these taxes that are paid out of property designated for charity, gross charitable bequests are larger than the charitable deduction.

although rarely, reported the election, just in 0.4 percent of all cases. A little more than a third of estates, 35.2 percent, that elected nonprotective, special use valuation reported an estate tax liability. The majority of estates with farm property elections, 66.5 percent, reported no estate tax liability. Estates with either nonfarm property or farm and nonfarm property were more likely to report an estate tax liability, in 58.6 percent of cases.

With the Taxpayer Relief Act of 1997, Congress sought to safeguard family-run businesses and provided an estate tax deduction for “qualifying” family-owned businesses included in gross estate [11]. The deduction, initially set at \$675,000, could not exceed \$1.3 million when combined with the applicable

Figure U

Composition of Special Use Valuation Elections, 2001 Decedents



lifetime exemption. Therefore, as the lifetime exemption increased from \$625,000 in 1998 to \$1.5 million in 2004, the deduction would decrease and finally disappear in 2004 [12]. For decedents who died in 2001, the available deduction for qualified family-owned business was \$625,000.

Only a small fraction of estates utilized the qualified family-owned business deduction in calculating taxable estate and estate tax liability. For year of death 2001, only 1,114 estates, or 1.0 percent of the estate tax decedent population, claimed the deduction (Figure W). The deduction reduced these estates, overall, by \$626.8 million. While estates in the \$1.0 million under \$5.0 million category made up the majority of those that used the deduction, estates with \$5.0 million or more in gross assets were more likely to claim the deduction, compared to decedents in other gross estate categories. In terms of taxability, only 30.1 percent of estates that claimed the deduction reported an estate tax liability.

Congress has also enacted legislation that lessens the burden of certain estate tax payments for estates

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure V

Nonprotective, Special Use Elections, by Size of Total Gross Estate, Tax Purposes, 2001 Estate Tax Decedents

[Money amounts are in thousands of dollars]

Type of election and size of gross estate, tax purposes	Total gross estate, tax purposes		Fair market value, special use property		Qualified use value, special use property		Net estate tax	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All nonprotective elections.....	426	660,643	382	377,177	380	188,992	150	61,067
Under \$1 million.....	172	138,085	153	122,775	153	56,855	19	843
\$1 million under \$5 million.....	245	443,429	219	238,778	217	121,872	123	41,246
\$5 million or more.....	9	79,129	9	15,624	9	10,264	8	18,977
Farm property elections.....	397	585,455	362	361,607	360	178,566	133	50,052
Under \$1 million.....	172	138,085	153	122,775	153	56,855	19	843
\$1 million under \$5 million.....	218	390,056	203	228,309	201	115,111	109	34,060
\$5 million or more.....	6	57,314	6	10,523	6	6,600	5	15,148
Nonfarm and farm/nonfarm elections.....	29	75,189	20	15,569	20	10,425	17	11,015
Under \$1 million.....	--	--	--	--	--	--	--	--
\$1 million under \$5 million.....	26	53,373	17	10,469	17	6,761	14	7,186
\$5 million or more.....	3	21,815	3	5,100	3	3,664	3	3,829

NOTES: This figure does not include data for protective elections, as estates that make protective elections do not report fair market and qualified use values. An estate may make a protective election if the estate's executor must file a Federal estate tax return prior to final determination of real property's qualification as special use property. The election is contingent upon property's value as finally determined.

Figure W

Use of Qualified Family-Owned Business Deduction, by Tax Status and Size of Total Gross Estate, Tax Purposes, 2001 Decedents

[Money amounts are in thousands of dollars]

Tax status and size of gross estate, tax purposes	Total gross estate, tax purposes		Qualified family-owned business deduction		Net estate tax	
	Number	Amount	Number	Amount	Number	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
All.....	1,114	2,468,019	1,114	626,775	335	272,027
Under \$1 million.....	309	265,502	309	120,679	36	1,155
\$1 million under \$5 million.....	735	1,349,169	735	461,259	247	75,494
\$5 million or more.....	70	853,348	70	44,837	52	195,378
Taxable.....	335	1,319,909	335	204,764	335	272,027
Under \$1 million.....	36	28,554	36	7,462	36	1,155
\$1 million under \$5 million.....	247	610,258	247	163,565	247	75,494
\$5 million or more.....	52	681,097	52	33,738	52	195,378
Nontaxable.....	779	1,148,110	779	422,011	--	--
Under \$1 million.....	273	236,948	273	113,218	--	--
\$1 million under \$5 million.....	488	738,911	488	297,694	--	--
\$5 million or more.....	17	172,251	17	11,099	--	--

comprised of closely held businesses. Initially, in 1958, Congress introduced installment payments for these estates, and then, in 1976, Congress established rules for deferral of payments. In order to qualify for these provisions, at least 35 percent of the value of adjusted gross estate must consist of an interest in a closely held business [13]. The provisions provide estates with an alternative to selling closely held

interests in order to meet Federal tax responsibilities, as tax payments may be paid over a period of 14 years. However, only that portion of estate tax liability that is attributable to the decedent's closely held business is eligible for deferral of payments. An executor's decision to use these payment options is not contingent on the election of special use valuation. However, if the executor elects special use

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure X

Tax Deferred, by Size of Total Gross Estate, Tax Purposes, 2001 Estate Tax Decedents

[Money amounts are in thousands of dollars]

Size of gross estate, tax purposes	Total gross estate, tax purposes		Closely held business	Net estate tax	Tax deferred
	Number	Amount	Amount	Amount	Amount
	(1)	(2)	(3)	(4)	(5)
All.....	382	2,250,301	1,308,776	620,763	365,641
Under \$5 million.....	250	612,725	367,339	118,575	71,419
\$5 million or more.....	132	1,637,576	941,437	502,187	294,222

valuation, the same, lower value must be used for determining the deferred tax payments [14].

Relatively few estates for 2001 decedents chose to postpone payment of estate tax liabilities due to ownership interests in closely held businesses. Only 382 estates, less than half a percentage point of all estates, elected the payment option offered under law (Figure X). Relatively small estates, those with total assets of less than \$5.0 million, represented the largest share of the 382 estates that elected to defer tax. However, the largest estates, with \$5.0 million or more in total assets, most frequently, although rarely, elected deferral, in only 2.6 percent of all cases. Only 0.2 percent of smaller estates elected to defer tax liability on closely held business interests. Estates for 2001 decedents deferred more than \$365.6 million in estate tax, or 58.9 percent of reported tax liabilities for those estates.

To preserve small, closely held and family-owned enterprises, Congress has introduced, and written into Federal estate tax law, special use valuation, the qualifying family-owned business deduction, and a provision for deferral of estate tax payments due to ownership in a closely held business. These provisions, among others, offer estates relief in the valuation of business assets and payment of Federal estate tax liabilities, so that the liquidation of business assets for tax purposes may be avoided.

Figure Y presents a liquidity ratio of estates' liquid assets to reported Federal estate tax liabilities. Estates of 2001 decedents held \$50.7 billion in liquid asset holdings. In the aggregate, liquid assets--including State and local bonds, Federal savings bonds, other Federal bonds, cash, and cash management accounts--were sufficient (with a ratio greater than 1) to meet reported tax liabilities in all but two

gross estate categories [15]. Estates in the "\$5.0 million under \$10.0 million" category and those in the "\$10.0 million under \$20.0 million" category had liquidity ratios of 0.896 and 0.947, respectively. For these categories, reported estate tax liabilities exceeded reported liquid assets.

Figure Z organizes estate tax and liquidity data by estates' financial capacity to meet Federal estate tax responsibilities with only accumulated liquid assets. The majority of estates with an estate tax liability, 71.4 percent, reported liquid assets that exceeded estate tax liabilities. Those estates reported \$8.8 billion, or 42.7 percent, of the \$20.8 billion in reported Federal estate tax for 2001 decedents. The last column in Figure Z shows the number of estates that elected at least one of three special, small-business provisions, including special use valuation, the qualified family-owned business deduction, and deferred payment of tax liability. Overall, 1,600 estates elected one or more business provisions. Most of those estates, 1,184, held liquid assets that exceeded their estate tax liabilities. Data in this column also suggest that special business provisions are increasingly utilized as liquidity issues arise, at least for estates with total assets of \$2.5 million or more.

Data Sources and Limitations

Analysts in the Special Projects Section of SOI's Special Studies Branch, with SOI staff in the Cincinnati Submission Processing Center, conduct the Estate Tax Study, which extracts demographic, financial, asset, and bequest data from Form 706, the Federal estate tax return. The Estate Tax Study is conducted on an annual basis, which allows production of filing year data on estate taxation. By focusing on a single year of death for a period of 3

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure Y

Liquid Assets in the Estates of 2001 Decedents, by Tax Status and Size of Gross Estate, Tax Purposes

[Money amounts are in thousands of dollars]

Size of gross estate, tax purposes	Total gross estate, tax purposes		Net estate tax		Liquid assets		Liquidity ratio
	Number	Amount	Number	Amount	Number	Amount	(Liquid assets/net estate tax)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All.....	108,330	198,817,746	49,845	20,794,511	107,276	50,709,366	2.439
\$675,000 under \$1.0 million.....	44,899	36,800,630	16,134	657,531	44,480	11,307,050	17.196
\$1.0 million under \$2.5 million.....	48,422	71,677,204	25,196	5,579,926	47,877	19,053,235	3.415
\$2.5 million under \$5.0 million.....	9,977	33,947,465	5,319	4,660,007	9,905	7,764,251	1.666
\$5.0 million under \$10.0 million.....	3,449	23,503,977	2,115	4,060,242	3,431	5,262,497	1.296
\$10.0 million under \$20.0 million.....	1,128	15,313,531	744	2,800,431	1,127	3,575,715	1.277
\$20.0 million or more.....	455	17,574,939	339	3,036,374	455	3,746,617	1.234
Taxable.....	49,845	106,652,699	49,845	20,794,511	49,641	30,996,712	1.491
\$675,000 under \$1.0 million.....	16,134	13,934,066	16,134	657,531	16,031	4,842,758	7.365
\$1.0 million under \$2.5 million.....	25,196	37,096,291	25,196	5,579,926	25,117	11,990,491	2.149
\$2.5 million under \$5.0 million.....	5,319	18,256,719	5,319	4,660,007	5,298	4,824,318	1.035
\$5.0 million under \$10.0 million.....	2,115	14,470,635	2,115	4,060,242	2,113	3,636,098	0.896
\$10.0 million under \$20.0 million.....	744	10,160,375	744	2,800,431	744	2,652,158	0.947
\$20.0 million or more.....	339	12,734,612	339	3,036,374	339	3,050,889	1.005
Nontaxable.....	58,485	92,165,048	--	--	57,635	19,712,655	--
\$675,000 under \$1.0 million.....	28,766	22,866,564	--	--	28,450	6,464,292	--
\$1.0 million under \$2.5 million.....	23,226	34,580,913	--	--	22,760	7,062,744	--
\$2.5 million under \$5.0 million.....	4,658	15,690,746	--	--	4,607	2,939,933	--
\$5.0 million under \$10.0 million.....	1,334	9,033,342	--	--	1,318	1,626,399	--
\$10.0 million under \$20.0 million.....	384	5,153,155	--	--	383	923,558	--
\$20.0 million or more.....	117	4,840,327	--	--	117	695,728	--

NOTE: Liquid assets includes State and local bonds, Federal savings bonds and other Federal bonds, as well as cash and cash management accounts.

years, the study also allows production of periodic year-of-death estimates. A single year of death is examined for 3 years in order to sample estate tax returns filed in years subsequent to the year of death, as 99 percent of all returns for decedents who die in a given year are filed by the end of the second calendar year following the year of death. The Estate Tax Study for the period 2001-2003 concentrates on year-of-death 2001, the latest year-of-death estimates available. Study years 2004-2006 will concentrate on year-of-death 2004.

For each study year, 2001-2003, a sample was selected from returns filed. Samples were limited to returns filed for decedents who died after 1981. The sample for Filing Year 2001 included 10,838 returns out of a total population of 108,071. In 2002, the year in which most returns for 2001 decedents were filed, 13,415 returns were sampled out of a total of 99,604. There were 11,962 returns out of 73,127 sampled during filing year 2003. Of the 36,215 returns

sampled during 2001-2003, there were 18,740 returns filed for 2001 decedents.

Estate tax returns were sampled while the returns were being processed for administrative purposes, but before any audit examination. Returns were selected on a flow basis, using a stratified random probability sampling method, whereby the sample rates were preset based on the desired sample size and an estimate of the population. The design had three stratification variables: year of death, age at death, and size of total gross estate plus adjusted taxable gifts. For the 2001-2003 filing years, the year-of-death variable was separated into two categories: 2001 year of death and non-2001 year of death. Age was disaggregated into four categories: under 40, 40 under 50, 50 under 65, and 65 and older (including age unknown). Total gross estate plus adjusted taxable gifts was limited to seven categories: under \$1 million, \$1 million under \$1.5 million, \$1.5 million under \$2.0 million, \$2.0 million under \$3.0

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

Figure Z

Total Gross Estate, Net Estate Tax and Liquid Assets, by Liquidity and Size of Gross Estate, Tax Purposes, 2001 Decedents

[Money amounts are in thousands of dollars]

Size of gross estate, tax purposes	Total gross estate, tax purposes		Net estate tax		Liquid assets		Special business provisions elected
	Number	Amount	Number	Amount	Number	Amount	Number
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total.....	108,330	198,817,746	49,845	20,794,511	107,276	50,709,366	1,600
\$675,000 under \$1.0 million.....	44,899	36,800,630	16,134	657,531	44,480	11,307,050	436
\$1.0 million under \$2.5 million.....	48,422	71,677,204	25,196	5,579,926	47,877	19,053,235	800
\$2.5 million under \$5.0 million.....	9,977	33,947,465	5,319	4,660,007	9,905	7,764,251	201
\$5.0 million under \$10.0 million.....	3,449	23,503,977	2,115	4,060,242	3,431	5,262,497	111
\$10.0 million under \$20.0 million.....	1,128	15,313,531	744	2,800,431	1,127	3,575,715	36
\$20.0 million or more.....	455	17,574,939	339	3,036,374	455	3,746,617	16
Net estate tax less than or equal to liquid assets.....	94,059	154,313,286	35,603	8,884,950	93,209	45,920,222	1,184
\$675,000 under \$1.0 million.....	43,038	35,157,701	14,275	509,796	42,722	11,243,072	408
\$1.0 million under \$2.5 million.....	40,745	59,596,772	17,541	3,499,151	40,279	18,135,749	658
\$2.5 million under \$5.0 million.....	7,107	23,917,518	2,452	1,819,400	7,056	6,626,508	87
\$5.0 million under \$10.0 million.....	2,181	14,843,167	848	1,212,345	2,165	4,138,190	21
\$10.0 million under \$20.0 million.....	718	9,653,220	333	855,110	717	2,816,252	10
\$20.0 million or more.....	270	11,144,908	153	989,149	270	2,960,451	--
Net estate tax greater than liquid assets.....	14,271	44,504,460	14,242	11,909,562	14,067	4,789,145	416
\$675,000 under \$1.0 million.....	1,861	1,642,929	1,858	147,736	1,758	63,978	28
\$1.0 million under \$2.5 million.....	7,677	12,080,432	7,654	2,080,776	7,598	917,487	143
\$2.5 million under \$5.0 million.....	2,870	10,029,947	2,867	2,840,607	2,848	1,137,743	115
\$5.0 million under \$10.0 million.....	1,268	8,660,810	1,267	2,847,897	1,267	1,124,307	89
\$10.0 million under \$20.0 million.....	410	5,660,311	410	1,945,321	410	759,464	26
\$20.0 million or more.....	185	6,430,031	185	2,047,225	185	786,166	16

NOTES: Liquid assets includes State and local bonds, Federal savings bonds and other Federal bonds, as well as cash and cash management accounts. Estates are considered to have elected a special business provision if special use valuation was used, if the qualified family-owned business deduction was taken, or if reported estate tax liability was deferred due to ownership in a closely held business. Protective elections for special use valuation are not included as elections of special business provisions.

million, \$3.0 million under \$5.0 million, \$5.0 million under \$10.0 million, and \$10.0 million or more. Sampling rates ranged from 1 percent to 100 percent. Returns for over half of the strata were selected at the 100-percent rate.

Because almost 99 percent of all returns for decedents who die in a given year are filed by the end of the second calendar year following the year of death and because the decedent's age at death and the length of time between the decedent's date of death and the filing of an estate tax return are related, it was possible to predict the percentage of unfilled returns within age strata. The sample weights were adjusted accordingly, in order to account for returns for 2001 decedents not filed by the end of Filing Year 2003.

Explanation of Selected Terms

Brief definitions of some of the terms used in the tables are provided below:

Adjusted taxable estate.--This is the sum of taxable estate and adjusted taxable gifts.

Adjusted taxable gifts.--Certain gifts made during the life of an individual who died before 1982 were automatically included in the gross estate. However, for the estate of an individual who died after 1981, these gifts were not generally included in the gross estate. Instead, they were added to the taxable estate, creating the "adjusted taxable estate" for the purposes of determining the "estate tax before credits."

Bequests to surviving spouse.--This is the value of property interests passing from the decedent to the

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

surviving spouse, and it is taken as a deduction from the total gross estate.

Charitable deduction.--This is the deduction allowable for decedent's contributions to qualifying charitable organizations.

Estate tax before credits.--This is the tax obtained by applying the graduated estate tax rates to the adjusted taxable estate reduced by the amount of Federal gift taxes previously paid.

Exclusion or exemption amount.--The value of property transfers that individuals may give during life or at death.

Federal gift taxes previously paid.--A credit was allowed against the estate tax for the Federal gift tax paid on a gift made by a decedent before 1977. No credit, apart from the unified credit, is allowed for any gift tax paid on gifts made after 1976.

Filing threshold.--Same as exclusion or exemption amount.

Net estate tax.--This is the tax liability of the estate after subtraction of credits for State death taxes, foreign death taxes, credit for tax on prior transfers, and Federal gift taxes previously paid. In addition, a unified credit, graduated according to the year of death and a "credit" for gift taxes paid on post-1976 gifts, is allowed (see also "unified credit").

Net worth.--Net worth is equal to total gross estate less mortgages and other debts calculated at a decedent's date of death.

Nontaxable return.--A nontaxable return is one with no estate tax liability after credits.

Other tax credits.--This is the sum of all tax credits for foreign death taxes, Federal gift taxes, and taxes on prior transfers taken as a deduction against the estate tax before credits.

Tax on prior transfers.--A tax credit is allowed for Federal estate tax paid on property received by the decedent or the estate from a transferor who died within 10 years before, or 2 years after, the decedent. The credit is intended to lessen the burden of double taxation between successive estates whose owners had died within a short period of time. Depending on the time that has elapsed between the deaths, a credit is allowed for all or part of the Federal estate tax paid by the transferor's estate with respect to the transfer.

Taxable estate.--Taxable estate is the base to which the graduated Federal estate tax rates are applied in computing the estate tax before credits.

Taxable estate is equal to the value of the total gross estate less deductions for the following: funeral and administrative expenses; casualty and theft losses; debts, mortgages, losses, and other claims against the estate, including pledges to charitable organizations; bequests to the surviving spouse; and the employee stock ownership plan (ESOP) deduction (included in the statistics for "other expenses and losses").

Taxable return.--A taxable return is one with estate tax liability after credits.

Total gross estate.--An estate tax return is required in the case of every decedent whose gross estate, at the date of death, exceeded the legal filing requirement in effect for the year of death. For estate tax purposes, the gross estate includes all property or interest in property before reduction by debts (except policy loans against insurance) and mortgages, or administrative expenses. Included in the gross estate are items such as real estate, tangible and intangible personal property, certain lifetime gifts made by the decedent, property in which the decedent had a general power of appointment, the decedent's interest in annuities receivable by the surviving beneficiary, the decedent's share in community property, life insurance proceeds (even though payable to beneficiaries other than the estate), dower or curtesy of the surviving spouse (inherited property), and, with certain exceptions, joint estates with right of survivorship and tenancies by the entirety. In this article, total gross estate refers to the value of assets at the date of the decedent's death.

Unified credit.--The unified credit is applied as a dollar-for-dollar reduction in estate and/or gift taxes. The unified credit represents the amount of tax on that part of gross estate that is below the filing requirement. The credit must be used to offset gift taxes on lifetime transfers made after 1976. However, to the extent it is so used, the amount of credit available at death is reduced.

Acknowledgement

The author would like to thank Brian G. Raub, SOI economist in estate and gift taxation, for his help in producing Tables 1-8 following this article.

Notes and References

- [1] *United States Tax Reporter, Estate and Gift Taxes*, Volumes I and II, Research Institute of

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

America, 1996. This publication provides an overview of tax law, Internal Revenue Code text, House and Senate committee reports, U.S. Treasury regulations, and a general explanation of the tax code.

[2] Ibid.

[3] Population estimates are from "Annual Estimates of the Population for the United States and for Puerto Rico: April 1, 2000, to July 1, 2004," Population Division, U.S. Census Bureau, December 2004. Total adult deaths represent those of individuals age 20 and over, plus deaths for which age was unavailable. Death statistics are from Volume 52, Number 3, Table 3, Centers for Disease Control and Prevention, National Center for Health Statistics, U.S. Department of Health and Human Services, September 2003.

[4] Population estimates by sex are from "Annual Estimates of the Population by Sex and Selected Age Groups for United States: April 1, 2000, to July 1, 2003," Population Division, U.S. Census Bureau, June 2004.

[5] Life expectancy data available from "Estimated Life Expectancy at Birth in Years, By Race and Sex, Death-Registration States, 1900-28, and United States, 1929-2002," National Vital Statistics Reports, Volume 53, Number 6, November 2004.

[6] For SOI study year 2001 and prior years, processing of Federal estate tax returns was located at the Ogden Submission Processing Center. Post-2001 studies have been moved to the Cincinnati Submission Processing Center. Since valuation discount data are difficult to identify and extract from Federal estate tax returns, these data were removed from the 2002 and 2003 studies. However, the identification and extraction of such data were reintroduced in 2004, so that post-2004 filing year and year-of-death data will include valuation discount information.

[7] During SOI return processing, assets in family limited partnerships were allocated to specific asset categories according to the supporting documentation supplied with estate tax returns.

If supporting documentation was not available with a return and a partnership made up more than 10 percent of total gross estate, IRS personnel called the return preparer for a listing of FLP assets. If the partnership was less than 10 percent of total gross estate, the total FLP value was coded using a "unallocable FLP" code. These FLP's will be called "unallocable" FLP's throughout the rest of this article.

[8] SOI personnel gathered this information through meetings with national estate and gift tax attorneys from the IRS Estate and Gift Tax Administration and through examination of FLP documentation that accompanies estate and gift tax returns.

[9] To meet the requirements for special use valuation, several conditions must be met, including, but not limited to: (1) real property must be used by the decedent or family member for a "qualified use," such as farming, at the decedent's date of death, as well as in 5 of 8 years preceding death; (2) real property must be transferred to a family member of the decedent; (3) at least 25 percent of the adjusted value of the gross estate must consist of the real property, (4) at least 50 percent of the adjusted value of the gross estate must consist of real and other business property, and (5) estate must consent to payment of additional estate tax if property is sold or no longer used for qualified purpose.

[10] If an estate's executor must file a Federal estate tax return prior to final determination of real property's qualification as special use property, the executor may make a protective election to specially value the property, contingent upon property's value as finally determined.

[11] In order to qualify for the deduction, several requirements must be met, including, but not limited to: (1) at least 50 percent of a decedent's total gross estate must equal the value of his or her interest in the family-owned business, (2) the decedent or family member must have been a material participant in the business, (3) the business must be predominantly owned by the decedent's family, and (4)

Which Estates Are Affected by the Federal Estate Tax?: An Examination of the Filing Population for Year-of-Death 2001

additional estate tax is imposed if, within a period of 10 years after the decedent's death and before the qualified heir's death, the heir fails to materially participate in the business.

- [12] In the 1997 Act, Congress provided for gradual increase in the lifetime exemption from \$625,000 in 1998 to \$850,000 in 2004. However, in 2001, Congress enacted legislation in the Economic Growth and Tax Relief Reconciliation Act that completely changed the landscape of estate tax law. As a result, the lifetime exemption, \$675,000 in 2000 and 2001, is set to increase to \$3.5 million in 2009, and the estate tax disappears entirely for deaths in 2010.
- [13] Other requirements exist to qualify for installment payments and deferral of estate tax. For example, under the law in effect for 2001, the definition of closely held business included three

types of entities: (1) sole proprietorships, (2) partnerships, if the estate included 20 percent or more of the partnership interest or if the partnership had 15 or fewer partners, and (3) corporations, if the estate included 20 percent or more of the voting stock of the corporation or if the corporation had 15 or fewer shareholders. Specific requirements for qualification for deferred payments and the calculation of those payments will not be examined here.

- [14] Bittker, Boris, Elias Clark, and Grayson M.P. McCouch, *Federal Estate and Gift Taxation*, Aspen Law and Business, New York, 2000.
- [15] Estates reported \$57.7 billion in publicly traded corporate stock, which may be readily liquidated but is not included in the measure of liquid assets used here.

Source: IRS Statistics of Income Bulletin, Summer 2005, Publication 1136 (Rev. 09-2005.)